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VECTOR
AEROSPACE

annual report

focus & direction

1999

Investor Information

The Company's common shares are listed on the Toronto Stock Exchange under the symbol RNO. The following table sets forth the reported high, low and closing share prices, as well as volumes of the shares traded for the periods indicated.

Toronto Stock Exchange

1999 Fiscal Year	High	Low	Close	Volume
First Quarter	5.75	4.75	5.25	4,493,483
Second Quarter	7.00	4.90	6.90	3,000,389
Third Quarter	7.30	6.25	6.85	1,045,438
Fourth Quarter	8.75	6.50	7.50	4,408,285

Transfer Agent and Registrar:

Requests for information covering dividend payments, lost share certificates, address changes or other shareholder information should be directed to:

Montreal Trust
1465 Brenton Street
Halifax, Nova Scotia
Canada, B3J 3B7
Telephone: (902) 420-2211
Facsimile: (902) 420-2764

Annual Meeting:

The Annual Meeting of the Shareholders of Vector Aerospace Corporation will be held Wednesday, April 26, 2000 at 4:00 p.m.:

Royal York Hotel
100 Front Street West
Toronto, Ontario

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Highlights

VECTOR
AEROSPACE

Revenue	$	268.1 Million
EBITDA	$	41.3 Million
Net Earnings	$	20.3 Million

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Results at a Glance

(in thousands, except per share amounts)

	1999	1998*
Operating Summary		
Revenue	$ 268,119	$ 122,491
EBITDA	41,332	16,294
Net earnings	20,309	7,929
Cash flow from operations (before change in non-cash working capital)	26,586	11,094
Financial Position (December 31)		
Working capital	$ 92,395	$ 92,323
Total assets	326,331	215,214
Long-term debt	86,176	34,955
Shareholders' equity	115,117	93,701
Long-term debt to equity ratio	0.7:1	0.4:1
Per Share		
Average number of common shares outstanding	28,059	27,505
EBITDA	1.47	0.59
Net earnings	0.72	0.29
Cash flow from operations (before change in non-cash working capital)	0.94	0.40

*Fiscal 1998 covers the period from June 25 to December 31, 1998

Management's Responsibility for Financial Reporting

Management is responsible for the integrity and objectivity of the financial information presented in this Annual Report. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The financial information presented elsewhere in this report is consistent with that shown in the accompanying consolidated financial statements.

Management is also responsible for developing and maintaining the necessary systems of internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded and that the financial records form a reliable base for the preparation of accurate and timely financial information.

The Board of Directors is responsible for ensuring management fulfills its responsibilities for financial reporting and internal control. The Board carries out this responsibility principally through its Audit Committee. The Audit Committee of the Board of Directors, which consists solely of non-management directors, reviews the consolidated financial statements and recommends them to the Board for approval. The shareholders' auditors have full and unrestricted access to the Board of Directors and the Audit Committee and meet periodically with them to discuss audit, financial reporting and related matters.

Paul Conway
Paul Conway, President
& Chief Operating Officer

Max Parsons
Maxwell Parsons, Vice President,
Chief Financial Officer & Secretary

Audit Committee Report

To the Shareholders of Vector Aerospace Corporation

The Audit Committee oversees the financial reporting process on behalf of the Board of Directors. In order to carry out this responsibility, the Committee, composed entirely of Directors independent of management, meets quarterly to review the Company's financial statements and recommends their approval to the Board of Directors. The Audit Committee also reviews, on a continuing basis, any reports prepared by the Company's external auditors relating to its accounting policies and procedures, as well as its internal controls. Financial information prepared for securities commissions and such regulatory bodies is also examined by the Audit Committee before filing. The Committee meets independently with management and the external auditors to review the involvement of each in the financial reporting process. These meetings are designed to facilitate any private communication with the Committee desired by each party. The Audit Committee recommends the appointment of the Company's external auditors, who are elected annually by the Company's shareholders.

Basile E. Papaevangelou, Chairman of the Audit Committee

Auditors' Report

To the Shareholders of Vector Aerospace Corporation

We have audited the consolidated balance sheets of Vector Aerospace Corporation as at December 31, 1999 and 1998 and the consolidated statements of earnings, shareholders' equity and cash flow for the year ended December 31, 1999 and the period from June 25, 1998 to December 31, 1998. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the year ended December 31, 1999 and the period from June 25, 1998 to December 31, 1998 in accordance with accounting principles generally accepted in Canada.

Ernst & Young LLP

Chartered Accountants

St. John's, Canada
February 4, 2000.

Consolidated Balance Sheets

December 31 (in thousands of Canadian dollars)

Incorporated under the laws of Canada

	1999	1998
Assets (Note 6)		
Current assets		
Receivables	$ 55,602	$ 41,958
Work in progress	57,657	40,819
Inventory	94,587	89,798
Prepaid expenses	2,069	1,006
	209,915	173,581
Capital assets (Note 4)	66,885	41,633
Goodwill and other assets (Note 5)	49,531	—
	$ 326,331	$ 215,214
Liabilities		
Current liabilities		
Bank indebtedness (Note 6)	$ 48,881	$ 30,310
Payables and accruals	43,626	36,281
Deferred revenue	3,313	3,680
Income taxes payable	11,486	3,587
Current portion of long-term debt (Note 6)	10,214	7,400
	117,520	81,258
Long-term debt (Note 6)	86,176	34,955
Other credits (Note 7)	7,518	5,300
Shareholders' equity	115,117	93,701
	$ 326,331	$ 215,214

Commitments (Note 15)

On Behalf of the Board

Director

Director

See accompanying notes

Consolidated Statements of Earnings

For the year ended December 31, 1999 and the period from June 25 to December 31, 1998

(in thousands of Canadian dollars, except per share amounts)

	1999	1998
Revenue	$ 268,119	$ 122,491
Operating expenses	226,787	106,197
Earnings before undernoted items	41,332	16,294
Amortization	3,535	1,913
Earnings from operations	37,797	14,381
Interest expense (Note 6)	7,028	2,662
Earnings before income taxes	30,769	11,719
Income taxes (Note 11)	10,460	3,790
Net earnings	$ 20,309	$ 7,929
Net earnings per share (Note 12)	$ 0.72	$ 0.29

See accompanying notes

Consolidated Statements of Shareholders' Equity

For the year ended December 31, 1999 and the period from June 25 to December 31, 1998

(in thousands of Canadian dollars)

	1999	1998
Retained earnings, beginning of period	$ 7,929	$ —
Net earnings	20,309	7,929
Retained earnings, end of period	28,238	7,929
Capital stock (Note 8)	88,851	84,648
Currency translation adjustment (Note 9)	(1,972)	1,124
Total shareholders' equity	$ 115,117	$ 93,701

See accompanying notes

Consolidated Statements of Cash Flow

For the year ended December 31, 1999 and the period from June 25 to December 31, 1998

(in thousands of Canadian dollars)

	1999	1998
Operating activities		
Earnings from operations	$ 37,797	$ 14,381
Item not involving cash		
Amortization	3,535	1,913
Cash flow from operations before interest and income taxes	41,332	16,294
Interest expense (Note 6)	(7,028)	(2,662)
Current income taxes (Note 11)	(7,718)	(2,538)
Cash flow from operations before changes in non-cash working capital	26,586	11,094
Change in non-cash working capital (Note 13)	(17,079)	(12,940)
	9,507	(1,846)
Financing activities		
Increase in bank indebtedness	18,663	10,155
Short-term note repayment	—	(20,000)
Long-term debt borrowings	36,264	20,000
Long-term debt repayments	(9,887)	(3,162)
Capital stock issuances	123	53
	45,163	7,046
Investing activities		
Business acquisitions (Note 3)	(37,927)	—
Capital asset additions	(13,514)	(5,520)
Other	(3,229)	320
	(54,670)	(5,200)
Change in cash, and balance beginning of and end of period	$ —	$ —

See accompanying notes

Notes to the Consolidated Financial Statements

December 31, 1999 and 1998

(Tabular amounts in thousands)

1. Basis of presentation

Vector Aerospace Corporation (the "Corporation") was incorporated on April 23, 1998 and was inactive until June 25, 1998 when the Corporation acquired, for share consideration and a $20 million 60 day demand note payable from its then parent, CHC Helicopter Corporation ("CHC"), the net assets and businesses of SIGMA Aerospace Limited, Atlantic Turbines International Inc., and ACRO Aerospace Inc. The transfer was recorded at CHC's historical cost of the net assets and businesses acquired.

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries. These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada.

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. By their nature these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be material.

2. Summary of significant accounting policies

Translation of foreign currencies

Transactions denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the beginning of the month in which the transaction occurred. Monetary assets and liabilities are translated into Canadian dollars at the year-end exchange rate. Non-monetary items are translated at historical rates. All exchange gains and losses are included in earnings in the period incurred, except for unrealized exchange gains and losses on translation of long-term debt which are deferred and amortized on a straight-line basis over the remaining term of the debt.

2. Summary of significant accounting policies *(cont'd)*

The Corporation's foreign subsidiaries are financially and operationally self-sustaining. Accordingly, their assets and liabilities are translated into Canadian dollars at the year-end exchange rates. Revenue and expense items are translated at monthly exchange rates. The resulting gains or losses are deferred as a separate component of shareholders' equity until realized.

Inventory

Inventory, consisting primarily of aircraft parts, is valued at the lower of average or actual cost, and net realizable value or replacement cost, as applicable. The cost of overhauled inventory includes the cost of raw materials, direct labour and related overhead.

Capital asset amortization

Capital assets are amortized over their estimated useful lives as follows:

Asset	Method	Rate
Equipment	Declining balance	10% to 20%
Buildings and test cells	Declining balance	5%
Leasehold improvements	Straight-line	Term plus one renewal

Goodwill

Goodwill represents the excess of the cost of investments in subsidiaries over the fair value of the net underlying identifiable assets acquired and is amortized to earnings on a straight-line basis, over its estimated life of forty years. The carrying value of goodwill is evaluated for potential permanent impairment on an ongoing basis. In order to determine whether permanent impairment exists, management considers financial condition, as well as expected pre-tax earnings, cash flows or market-related values. Any permanent impairment in the value of goodwill is written off against earnings in the year the impairment is recognized.

Licence fees

Licence fees are amortized on a straight-line basis over twenty years.

2. Summary of significant accounting policies *(cont'd)*

Deferred charges

Deferred charges are amortized on a straight-line basis over five years.

Provision for renewal of rental engines

Overhaul and maintenance costs associated with the renewal of rental engines are expensed using an overhaul provision which accrues the estimated future cost of an overhaul over the service life of the engine based on flight hours. Actual expenditures related to the renewal of the rental engines are charged against the provision.

Government assistance

Government assistance relating to the acquisition of facilities and equipment is recorded as a deferred credit. These credits are amortized over the lives of the assets to which they relate on the same basis as the asset is amortized. Government assistance relating to operations is applied against the related expense at the time earned.

Warranty provision

The estimated liability for costs to be incurred as a result of future warranty claims is recorded in the period in which the revenue is recognized on the basis of warranty terms and historical experience.

Revenue recognition

Revenue, including revenue on contracts which is invoiced prior to work being performed, is recognized on the percentage of completion basis and measured on the basis of the sales value of actual costs incurred and work performed. Anticipated losses, if any, are fully provided for in the period in which they become apparent.

Pension costs and obligations

The Corporation has defined contribution and defined benefit pension plans covering its employees. In valuing pension obligations for its defined benefit plans, the Corporation uses the accrued benefit actuarial method prorated on services and best estimate assumptions. Pension plan assets are valued at current market values.

2. Summary of significant accounting policies *(cont'd)*

Income taxes

The Corporation follows the deferral method of tax allocation accounting. Under this method timing differences between accounting and taxable income result in the recognition of deferred income tax balances. The deferred taxes recorded result primarily from recording depreciation for tax purposes in excess of that recorded for accounting purposes and the timing of recognition of profit on work in progress for tax purposes.

Stock-based compensation plans

The Company has two stock-based compensation plans which are described in Note 8. No compensation expense is recognized for these plans when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital.

Interest rate risk management

The Corporation has entered into interest rate swap agreements in order to manage the interest rate exposure associated with certain long-term debt obligations. Payments and receipts under interest rate swap agreements are recognized as adjustments to interest expense.

Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation. In 1999 changes in the statements of cash flow as prescribed by the Canadian Institute of Chartered Accountants were adopted on a retroactive basis.

3. Business acquisitions

Effective March 31, 1999 and April 29, 1999 the Corporation acquired the shares and net assets of the various entities in the Helipro Group of Companies ("Helipro"). The purchase consideration of $38,985,000 consisted of $27,500,000 in cash including acquisition costs, a $7,405,000 promissory note payable bearing interest at 8%, and 800,000 common shares of the Corporation with an ascribed value of $4,080,000 (Note 8). Additional purchase consideration, to a maximum of $7,300,000, is subject to future earnings in excess of a base amount and is currently not determinable.

Effective July 17, 1999 the Corporation acquired the net assets and businesses of Tower Aviation Services and Advanced Turbine Technology now incorporated as Alameda Aerospace Corporation ("Alameda"), for cash consideration of $10,427,000, including acquisition costs.

Details of the acquisitions are as follows:

	Helipro	Alameda	**Total**
Purchase consideration			
Cash	$ 27,500	$ 10,427	**$ 37,927**
Promissory note payable	7,405	—	**7,405**
Common shares	4,080	—	**4,080**
	$ 38,985	$ 10,427	**$ 49,412**
Fair values assigned to the net assets			
Working capital	$ 10,386	$ (1,755)	**$ 8,631**
Capital and other assets	4,514	12,916	**17,430**
Long-term debt	(690)	(734)	**(1,424)**
Goodwill	24,775	—	**24,775**
	$ 38,985	$ 10,427	**$ 49,412**

The acquisitions have been accounted for as purchases with the results of the operations from the effective dates of acquisition included in the consolidated financial statements.

4. Capital assets

	1999	1998
Equipment		
Cost	$ 62,643	$ 38,191
Accumulated amortization	(14,905)	(13,198)
Provision for renewal of rental engines	(817)	(947)
	46,921	24,046
Buildings and test cells		
Cost	15,097	14,056
Accumulated amortization	(1,697)	(1,318)
	13,400	12,738
Leasehold improvements		
Cost	9,174	6,761
Accumulated amortization	(2,610)	(1,912)
	6,564	4,849
	$ 66,885	$ 41,633

5. Goodwill and other assets

	1999	1998
Goodwill, less accumulated amortization of $479,000	$ 24,296	$ —
Licence fees, less accumulated amortization of $Nil	21,245	—
Non-interest bearing stock purchase loans to employees	2,085	—
Deferred charges, less accumulated amortization of $146,000	1,905	—
	$ 49,531	$ —

During 1999 the Corporation purchased new Distributor and Designated Overhaul Facility licences for total consideration and costs of $21,245,000 which was funded by a 7% term loan that matures in 2005 (Note 6). Amortization of these licences will commence once they are in productive use.

The non-interest bearing stock purchase loans to employees are full recourse, have as collateral a pledge of the related shares purchased, and are required to be repaid over a maximum of ten years.

6. Bank indebtedness and long-term debt

	1999	1998
Bank indebtedness		
Canadian dollar (BA + 1.75%)	$ 25,987	$ 21,753
U.S. dollar (LIBOR + 1.75% and Prime + 1%) (December 31, 1999 - U.S.$7,400,000)	10,648	—
Pound Sterling (Base rate + 1%) (December 31, 1999 - £5,220,000; 1998 - £3,350,000)	12,246	8,557
	$ 48,881	$ 30,310

Long-term debt

Interest Rates	Repayment Terms	Maturity Dates	1999	1998
Term loans				
BA + 2%	Revolving	April 2004	$ 52,500	$ —
Base rate + 1%	Quarterly	February 2005	17,585	22,818
7%	Semi-annually	March 2005	16,271	—
BA + 1%	Revolving	Retired	—	13,000
BA + 1.5%	Monthly	Retired	—	5,666
6.5% to 9.5%	Monthly	Various to May 2008	3,435	871
Promissory note				
8% (Note 3)	Quarterly	April 2003	6,599	—
Total long-term debt			96,390	42,355
Less: Current portion			10,214	7,400
			$ 86,176	$ 34,955

Collateral

As collateral for the Canadian and U.S. dollar bank indebtedness and the BA + 2% term loan the Corporation has provided a general security agreement creating a first ranking mortgage security interest over certain property and equipment and a general assignment of specified receivables and inventory.

As collateral for the Pound Sterling bank indebtedness and the Base rate + 1% term loan the Corporation has provided a charge over specific freehold property and a floating charge debenture over specified assets.

6. Bank indebtedness and long-term debt *(cont'd)*

Foreign currency

Long-term debt included above denominated in foreign currencies and the Canadian dollar equivalent is as follows:

	1999	1998
U.S. dollar debt - U.S.$12,160,000	$ 17,510	$ —
Pound Sterling debt - £8,045,000 (1998 - £8,900,000)	18,868	22,818
	$ 36,378	$ 22,818

Interest

	1999	1998
Interest on long-term debt	$ 4,164	$ 1,466
Interest on short-term debt	2,864	1,196
	$ 7,028	$ 2,662

Interest paid during the period was $6,988,000 (1998 - $2,840,000).

The applicable variable interest rates at December 31, 1999 were: Bankers' Acceptance ("BA") - 5.18% (1998 - 5.27%), LIBOR - 6.16%, U.S. Prime - 8.5% and Base rate - 5.5% (1998 - 6.25%).

During 1999 the Corporation entered into interest rate swap transactions to exchange variable interest rates on its revolving term loan for fixed interest rates (Note 10).

Repayment requirements

As at December 31, 1999 principal repayment requirements over the next five years are as follows:

2000	$ 10,214
2001	17,825
2002	21,440
2003	20,700
2004	22,970

6. Bank indebtedness and long-term debt *(cont'd)*

At December 31, 1999 the Corporation had in place lines of credit totaling $66,692,000 (1998 - $46,600,000) including $18,760,000 or £8,000,000 denominated in Pounds Sterling (1998 - $16,600,000 or £6,500,000). Availability of these lines is based on percentages of certain receivables and inventory.

Outstanding borrowings and letters of credit totaled $51,600,000 including $15,000,000 or £6,400,000 denominated in Pounds Sterling at December 31, 1999 (1998 - $31,600,000 including $9,900,000 or £3,900,000 denominated in Pounds Sterling).

7. Other credits

	1999	1998
Deferred income taxes	$ 1,735	$ 203
Deferred government assistance	2,846	2,947
Supplementary retirement plan accrual (Note 16)	2,480	2,150
Deferred foreign exchange gain	457	—
	$ 7,518	$ 5,300

8. Capital stock

Authorized:

Unlimited number of :

Common shares

First preferred shares

Second preferred shares

Issued:

Common shares	Number	Stated Capital
Balance, June 25, 1998 (Note 1)	27,500	$ 84,595
Issued under employee share purchase plans for cash	11	53
Balance, December 31, 1998	27,511	84,648
Issued under employee share purchase plans for cash	22	123
Issued on business acquisition (Note 3)	800	4,080
Balance, December 31, 1999	28,333	$ 88,851

Options under the employee stock option plan are as follows:

	Number	Exercise Price	Expiry Date
Balance, June 25, 1998 and December 31, 1998	1,300	$ 8.50	June 2008
Granted			
February 1999	343	$ 5.15	February 2009
December 1999	342	$ 8.10	December 2009
Balance, December 31, 1999	1,985		

Additionally, at December 31, 1999 1,342,000 (1998 - 1,364,000) common shares have been reserved under an employee share purchase plan.

9. Foreign currency

	1999	1998
Currency translation adjustment		
Balance, beginning of period	$ **1,124**	$ —
Translation adjustment during period	**(3,096)**	1,124
Balance, end of period	$ **(1,972)**	$ 1,124

Year-end exchange rates

Balance sheet accounts denominated in foreign currencies and translated at year-end exchange rates have been translated to Canadian dollars at the following rates:

	1999	1998
U.S. Dollars	**1.44**	1.53
U.K. Pounds Sterling	**2.35**	2.56

10. Financial instruments

The carrying values of the primary financial instruments of the Corporation, with the exception of long-term debt, approximate fair values due to the short term maturities and normal trade credit terms of those instruments.

The fair value of long-term debt, which approximates carrying value, has been estimated based upon the present value of expected cash flows at the rates available to the Corporation for debt with similar terms and remaining maturities.

The Corporation provides services and sells its products to many customers across different geographic areas. Although no customer accounts for more than 10% of the Corporation's sales, three customers represent 27% (1998 - 24%) of sales and 24% (1998 - 24%) of receivables. Due to the long standing relationships and contractual arrangements with these customers, the Corporation does not consider the credit risk related to these customers to be unreasonable.

10. Financial instruments *(cont'd)*

The Corporation operates under various licencing arrangements for the services it provides. Two product lines are covered by licences from third parties who act as the exclusive supplier of the related components and parts. These product lines account for approximately 20% (1998 - 22%) of operating expenses.

The Corporation has entered into, for hedging purposes, two interest rate swap transactions (the "Swap Transactions") with a Canadian chartered bank. The Swap Transactions expire on November 16, 2000 and November 16, 2001. They involve the exchange of three-month bankers' acceptance floating interest rates for fixed interest rates of 5.59% and 5.995% per annum. As at December 31, 1999 the notional amount of the Swap Transactions was $25,000,000 each for a total of $50,000,000.

11. Income taxes

	1999	1998
Earnings before income taxes	$ 30,769	$ 11,719
Combined federal and provincial statutory income tax rates	43%	43%
Income tax calculated at statutory rates	13,231	5,039
Increase (decrease) in taxes resulting from:		
Lower tax rate on earnings of subsidiaries	(3,286)	(957)
Amortization of tax goodwill	(667)	(770)
Non-deductible expenses	301	230
Capital tax	630	116
Other	251	132
Provision for income taxes at effective rate of 34% (1998 - 32%)	$ 10,460	$ 3,790

	1999	1998
The provision includes:		
Current income taxes	$ 7,718	$ 2,538
Deferred income taxes	2,742	1,252
	$ 10,460	$ 3,790

Income tax paid during the period was $4,133,000 (1998 - $Nil).

12. Per share information

Net earnings per share has been calculated using the weighted average number of common shares outstanding of 29,678,300 (1998 - 28,800,000). The calculation of fully diluted earnings per share assumes that, if a dilutive effect is produced, all outstanding options had been exercised at the later of the beginning of the fiscal period and the option issue date.

Basic and fully diluted earnings per share for the period was $0.72 (1998 - $0.29).

13. Change in non-cash working capital

	1999	1998
Receivables	$ (7,558)	$ (3,438)
Work in progress	(16,075)	(7,535)
Inventory	(1,055)	(7,968)
Prepaid expenses	(1,052)	611
Payables and accruals	1,310	(123)
Deferred revenue	(367)	2,975
Income taxes payable	7,718	2,538
	$ (17,079)	$ (12,940)

14. Segmented information

The Corporation's primary focus is the repair and overhaul of gas turbine engines and dynamic components used on fixed wing and helicopter aircraft. As a result the Corporation has one reportable segment.

Geographic information	1999		1998	
	Revenues	Capital Assets	Revenues	Capital Assets
Canada	$ 72,180	$ 28,455	$ 31,852	$ 20,801
United States	96,249	15,587	47,275	—
United Kingdom	30,280	22,843	20,571	20,832
Other foreign countries	69,410	—	22,793	—
	$ 268,119	$ 66,885	$ 122,491	$ 41,633

Revenues are attributed to countries based on location of customers.

15. Commitments

The Corporation has commitments with respect to operating leases. As at December 31, 1999 the minimum lease payments required under such leases were $33,529,000 payable as follows:

2000	$ 3,382
2001	3,057
2002	2,553
2003	2,241
2004	2,349
and thereafter	19,947

16. Employee pension plans and supplementary retirement plan agreements

a) The Corporation maintains a defined contribution pension plan for the majority of its employees. The Corporation's contributions to the plan are based upon percentages of gross salaries.

b) The Corporation's United Kingdom subsidiary maintains a defined benefit pension plan for some of its employees. Based on an actuarial valuation as of March 17, 1998, and extrapolations, the present value of the accrued pension benefits under the plan at December 31, 1999 was estimated at $11,286,000 (1998- $10,235,000) and the market value of the assets was estimated at $11,833,000 (1998 - $10,312,000).

c) The Corporation has unfunded supplementary retirement plan agreements for certain of its executives. The estimated present value of the related accrued pension benefits at December 31, 1999 was $2,724,500 (1998 - $2,414,500).

Management's Discussion and Analysis *of Financial Condition and Results of Operations*

Development of the Business

Original Operations

On June 25, 1998, Vector Aerospace Corporation (the "Corporation") acquired the aviation repair and overhaul business segment of CHC Helicopter Corporation ("CHC") consisting of SIGMA Aerospace Limited ("SIGMA") in Croydon, England; Atlantic Turbines International Inc. ("ATI") in Summerside, Prince Edward Island; and ACRO Aerospace Inc. ("ACRO") in Vancouver, British Columbia. Prior to that date, Vector had no assets and did not carry on any business.

Business Acquisitions

Effective March 31, 1999 and April 29, 1999, the Corporation acquired the shares and net assets of the various entities in the Helipro Group of Companies ("Helipro") with locations in Vancouver and Langley, British Columbia, Bellingham, Washington and Houston, Texas.

On July 17, 1999, the Corporation also acquired the net assets and businesses of Tower Aviation Services and Advanced Turbine Technology now incorporated as Alameda Aerospace Corporation ("Alameda Aerospace") located in Alameda, California.

Explanation of Comparative Figures

Prior to June 25, 1998 the businesses acquired from CHC were not operated as a consolidated entity. Complete consolidated financial information for the twelve-month period ended December 31, 1998 is therefore not available.

To provide a limited degree of comparability to the current year, information for 1998 relating to revenue and earnings before interest, taxes, depreciation and amortization ("EBITDA") has been compiled for the original operations from CHC's historical divisional information.

Comparisons to the information included in the financial statements related to the period from June 25 to December 31, 1998 are not made due to limited relevancy.

Results of Operations

Revenue

The Corporation generated consolidated revenues of $268.1 million during the year, up $41.8 million (18%) from the $226.3 million for the comparative twelve-month period. The $41.8 million increase results from $23.9 million of internal growth related to the original operations and $17.9 million of additional revenue from acquired businesses.

During the year the Corporation experienced strong demand for service related to the PW100 turboprop engine through our Atlantic Turbines facility. This is a marked improvement over the soft demand experienced during 1998.

The Corporation commenced work during the year at SIGMA Aerospace on the three year $40 million contract to repair and overhaul the RR Allison T56 engines for the Royal Saudi Air Force ("RSAF"). This contract positively impacted revenue for the year.

Uncharacteristically cool and damp weather in Western Canada together with lower prices for oil and other commodities in the earlier part of 1999 reduced helicopter flight hours flown and hence demand for repair and overhaul services during the year. The acquisition of Helipro did however result in increased revenues for the Corporation despite these reduced flight hours.

Operating margins

The Corporation generated higher operating margins for the year ended December 31, 1999 as compared with the twelve-months ended December 31, 1998.

EBITDA was $41.3 million (15.4% of revenue) for the year, up $12.5 million (43%) from the $28.8 million (12.7% of revenue) for 1998. An increase in volumes without a significant increase in fixed operating costs and improved efficiencies relating to the integration of acquired operations led to the improved margins.

Interest Expense

Interest expense was $7.0 million for the current year and earnings before taxes were $30.8 million. There is no comparable interest expense for the previous twelve-month period as the business operated as divisions of other companies prior to June 25, 1998 with no debt being specifically attributed to the original operations.

Results of Operations *(cont'd)*

Income tax expense

Income tax expense for the period was $10.5 million with no comparable tax expense for the previous twelve-month period. The Corporation's statutory income tax rate was approximately 43% for 1999. The actual rate is less due to lower rates in certain operating jurisdictions (the most significant of which being the United Kingdom) and the deductibility for income tax purposes of goodwill recorded only for tax purposes.

Net earnings

Net earnings for the year were $20.3 million ($0.72 per share).

Liquidity and Capital Resources

The Corporation generated $41.3 million of operating cash flow (before interest, taxes and change in non-cash working capital) in 1999, up $12.5 million from the $28.8 million generated for the comparable twelve-month period. Cash used to pay interest totaled $7.0 million (no comparable twelve-month information available) and cash taxes were $4.1 million (no comparable twelve-month information available). The Corporation invested $17.1 million in non-cash working capital during 1999. This investment related primarily to a requirement to invest in work in progress to support the RSAF contract at SIGMA ($5.5 million) and to support increased business levels throughout the Corporation ($7.2 million). The net cash generated from operations was $9.5 million in 1999.

At December 31, 1999 the Corporation had in place a $47.5 million (1998 - $30.0 million) operating facility with a syndicate of three Canadian chartered banks, a $18.8 million or £8.0 million (1998 - $16.6 million or £6.5 million) operating facility with a U.K. bank and other facilities thereby giving the Corporation total credit lines of $66.7 million. This is an increase of $20.1 million from the $46.6 million credit lines at December 31, 1998. Availability of these lines is based on percentages of certain receivables and inventory. The Corporation's short-term borrowings under these lines increased by $18.6 million during 1999 to a balance of $48.9 million at December 31, 1999 compared to $30.3 million at December 31, 1998. Outstanding letters of credit totaled $2.8 million at December 31, 1999 compared to $1.3 million at December 31, 1998.

Liquidity and Capital Resources *(cont'd)*

The Corporation had an increase in long-term borrowings of $36.3 million during 1999 related to the acquisition of Helipro and Alameda Aerospace. As well, it issued a promissory note of $7.4 million to partially finance the acquisition of Helipro. Additionally, long-term debt increased by $21.2 million related to the acquisition of new Distributor and Designated Overhaul Facility ("DDOF") licences. Long-term debt repayments totaled $9.9 million for the year.

The Corporation monitors the financial risk exposure relating to its long-term debt portfolio. The risk exposure created by floating interest rates is managed through interest rate swap transactions with a chartered bank. In accordance with the Corporation's objective of maintaining a balance between fixed and floating interest rates, approximately 50% of the Corporation's long-term debt is fixed through two interest rate swap transactions with a notional amount of $25.0 million each for a total of $50.0 million. The swap transactions expire on November 16, 2000 and November 16, 2001. They involve the exchange of three-month bankers' acceptance floating interest rates for fixed interest rates of 5.59% and 5.995% per annum respectively.

Capital expenditures of $13.5 million were incurred in 1999 related to test cell expansions ($5.0 million), spare engine acquisitions ($3.5 million), relocation of facilities ($1.1 million) and the purchase of other property, tooling and equipment ($3.9 million).

At December 31, 1999 the Corporation had a working capital surplus of $92.4 million compared to $92.3 million at December 31, 1998. Long-term debt (excluding current portion) totaled $86.2 million and equity totaled $115.1 million. At December 31, 1998 long-term debt (excluding current portion) totaled $35.0 million and equity totaled $93.7 million. The long-term debt to equity ratio was 0.7:1 at December 31, 1999 compared to 0.4:1 at December 31, 1998. The total debt to equity ratio was 1.3:1 at December 31, 1999 compared to 0.8:1 at December 31, 1998.

The terms of certain of the Corporation's debt agreements impose operating and financial limitations on the Corporation. Such agreements limit, among other things, the Corporation's ability to increase indebtedness, create liens, make capital expenditures,

Liquidity and Capital Resources *(cont'd)*

engage in mergers or acquisitions, sell assets and make dividend payments. These limitations have not hampered the Corporation's ability to conduct normal operations.

The Corporation's ability to comply with any of the foregoing operating and financial limitations and with its loan repayment provisions will depend upon its future performance. This will be subject to prevailing economic conditions and other factors, some of which may be beyond the Corporation's control. The Corporation was in compliance with all significant financial covenants at December 31, 1999.

The Corporation believes that normal operations will provide sufficient working capital and cash flow to meet the $10.2 million long-term debt service requirements for the upcoming year.

Seasonality

The Corporation does not experience significant fluctuations in earnings due to seasonality. Reduced customer requirements in the months of December to February do, however, tend to result in slightly lower first and fourth quarter earnings as compared with quarters two and three.

Foreign Currency

The Corporation prepares its consolidated financial statements in Canadian dollars (as described in Note 2 to the Consolidated Financial Statements).

In 1999, 58% (1998 - 54%) of the Corporation's revenues was denominated in U.S. dollars and 22% (1998 - 26%) was denominated in Pounds Sterling. A significant portion of the Corporation's expenditures are also denominated in these currencies and hence a natural hedge exists for much of this exposure. However, there still exists net positive U.S. dollar and Pound Sterling cash flows that can impact earnings as the Canadian dollar exchange rate changes in relation to these currencies. In 2000, it is estimated that a one-cent decrease in the value of the Canadian dollar in relation to these currencies would increase net income by $0.2 million (1999 - $0.3 million).

Foreign Currency *(cont'd)*

The Corporation does have a policy that permits the hedging of its net foreign currency cash flows. The overall approach to managing these exposures includes identifying and quantifying the exposure position, determining the desired exposure position, and designing an appropriate solution to reduce the exposure. In designing these solutions the Corporation may, from time to time, use financial derivatives. The Corporation's derivative policy prohibits the use of derivative products for speculative purposes and contains provisions to further limit their use and associated risk. The Corporation has a policy of only entering into derivative transactions with chartered banks.

There were no foreign exchange derivative products in use at December 31, 1999.

Change in Accounting Policies

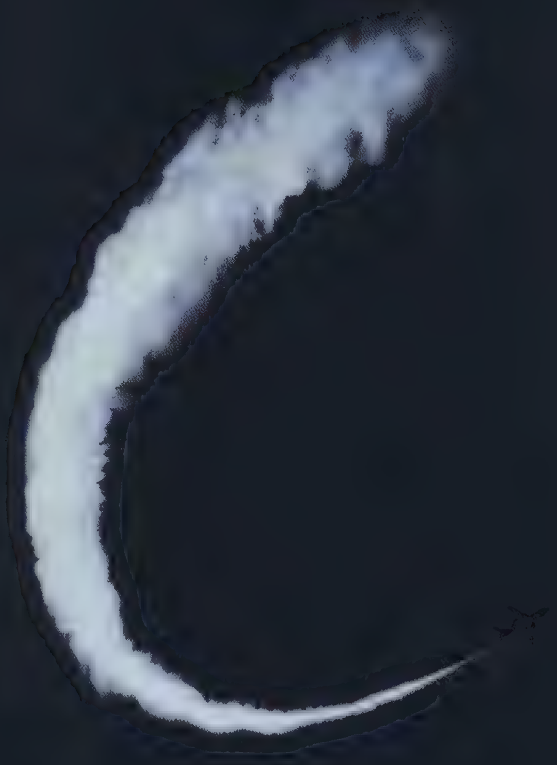
During 1999, The Canadian Institute of Chartered Accountants issued new standards of accounting for corporate income taxes and employee future benefits. These standards are effective for fiscal years beginning on or after January 1, 2000. These new accounting standards will be applied on a retroactive basis and the Corporation does not intend to restate prior periods. The Corporation has not implemented these new accounting standards for 1999. The impact on future earnings is currently being evaluated but is not yet determinable.

Year 2000 Issue

The Corporation's Year 2000 ("Y2K") readiness program involving a comprehensive review of its internal systems, external systems and the systems of its newly acquired businesses remained intact throughout 1999. At the conclusion of 1999, the Corporation had achieved its goal to be Y2K Ready. The Y2K preparedness efforts were rewarded at the turn of the century with all systems continuing to operate without incident.

Outlook

The outlook for Vector's businesses for 2000 is positive, consistent with the outlook for the general aviation after-market industry. The Corporation intends to exploit the potential of the business and licence acquisitions completed during 1999. The Corporation also intends to continue to pursue growth both in its existing business base and through acquisitions when appropriate opportunities arise.



Chairman's Message

Fiscal 1999 was an excellent year for Vector Aerospace. We made tremendous strides towards our goal of becoming the leading independent repair and overhaul provider world wide. We strengthened our position in the global aerospace industry and increased our revenues from $226.3 million to $268.1 million. Net income for fiscal 1999 was $20.3 million ($0.72 per share) - a solid financial performance for our first full fiscal year of operation.

Mark Dobbin, Chairman & CEO

focus and direction

Our focus on enhancing competitiveness over the past 12 months has contributed to our financial success. We expanded our capabilities, achieved economies of scale and implemented innovative business management systems. This adds value for our customers and creates greater returns for our shareholders.

We continue to deliver on our commitments. We committed to obtain new licences and we have. Most notable are the three new Distributor and Designated Overhaul Facility licences from Pratt & Whitney Canada (PWC). We committed to make strategic acquisitions and we have. We brought Helipro and Alameda Aerospace onto the Vector team. We said we would secure new and profitable contracts and we have. We signed long-term agreements such as the three-year $40 million dollar contract to overhaul the T56 engines of the Royal Saudi Air Force.

A Strong Vision

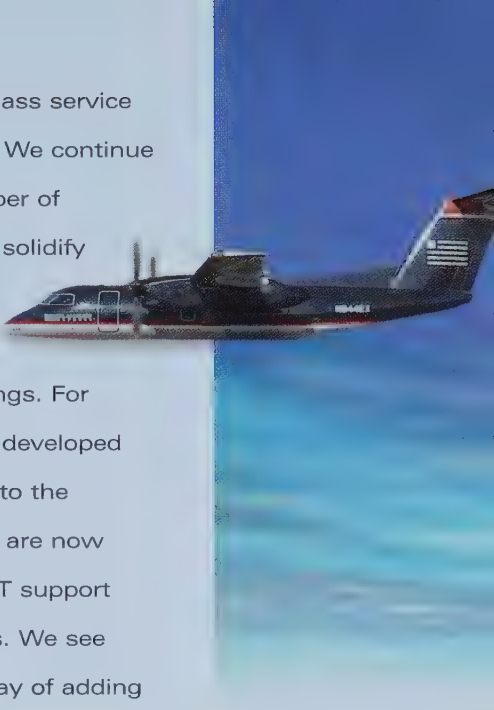
Vector is recognized and respected as a global player in the exciting and rapidly expanding industry for aviation after-market support. This sector is expected to exceed US $50 billion world wide in 2000. Annual growth in air traffic is forecast to average five to six percent over the next 20 years. This means robust demand for support services and Vector is well positioned to capture an increasing share. Customers from around the world turn to us on a regular basis for maintenance, repair and overhaul services for their aircraft engines, components and accessories.

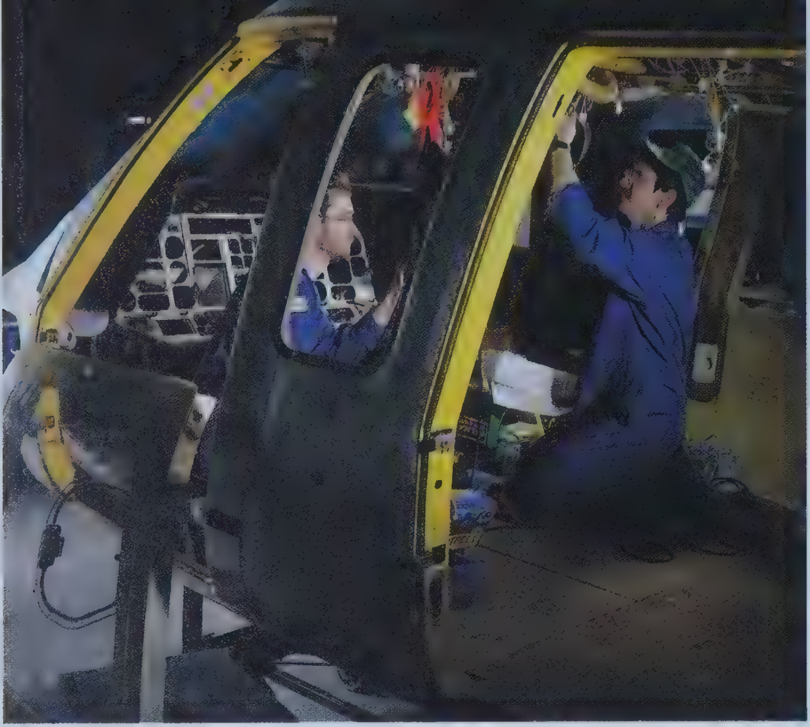
Aircraft operators today are seeking to source their services from repair and overhaul companies that are large, financially strong and technically sophisticated, with a comprehensive range of services. As a leading independent provider of these services, Vector is focused on building a comprehensive portfolio of product lines and services that allow us to better serve existing customers and attract new ones.

> "We have a solid book of business, a strong financial position and a very capable workforce."

Vector's corporate structure is well suited to our development plans. Serving both fixed-wing aircraft and helicopter operators, our business units are staffed with highly qualified professionals who are directly responsible for managing and developing their business. This structure allows Vector to pursue development opportunities at the corporate level and frees the operating units to focus on their mission to provide world-class service to every customer. We continue to work on a number of initiatives that will solidify Vector's place in the market and enhance our earnings. For example, we have developed our IT capabilities to the point where we are now offering online IT support to our customers. We see e-business as a way of adding value to our traditional repair and overhaul services.

Vector serves a diverse customer base. This diversity contributes to profitability and





helps to create a balance that minimizes risk. We serve commercial operators, government departments and militaries... a demanding and sophisticated customer base from around the world with very specific needs. Vector now serves customers on every continent. As a result we have developed a broad range of skills for successful operation in the international market. These skills serve us well as we aggressively pursue our acquisition goals.

Growing by Acquisition

Our criteria for acquisition are straightforward. We seek companies that build on Vector's core strengths, add to our capabilities and expand our customer base. The two acquisitions we completed in 1999 are a clear demonstration of these values in action and illustrate this fundamental component of our growth strategy. We diversified our services and established bases of operations in the United States through the acquisition of the Helipro Group and Alameda Aerospace (formerly Advanced Turbine Technology and Tower Aviation).

> "We have laid the foundation for continued growth within our existing facilities through investment in the new PWC licences."

Through Helipro we consolidated our position as the acknowledged leader in the global helicopter repair and overhaul sector. With the addition of Alameda Aerospace we have expanded our core services for fixed-wing aircraft to include components, accessories and auxiliary power units or APUs. Not only did we expand our range of products and services, but we also expanded the number and type of customers to whom we have access - in particular the operators of larger trunk carriers and cargo aircraft. It is clear from the smooth integration of these divisions into the corporation that we have the expertise and the financial strength to profit from strategic acquisitions as they emerge.

Internal Growth

During fiscal 1999 we achieved healthy internal growth. The capture of major contracts by SIGMA and ACRO and the expansion of Atlantic Turbine's services to a broad slate of new customers in South America, Europe, and Australia figured largely in this growth.

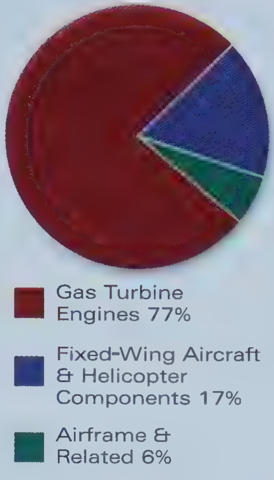
We have laid the foundation for continued growth within our existing facilities through investment in the new PWC licences. We will continue to support internal growth initiatives because the potential returns on this type of investment are significant. Each of our divisions has the capacity for continued growth of their market share. And they can accommodate much of this growth through cost-effective expansion within their existing facilities.

A Solid Foundation

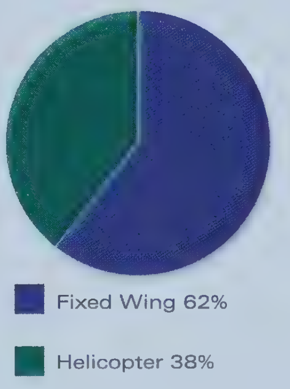
Vector is well positioned for the future. We have a solid book of business, a strong financial position and a very capable workforce focused on capturing our share of the increasing demand for aviation after-market support services. We are committed to the disciplined implementation of our business plan. We have sharpened our competitive edge for the long term by expanding our core competencies, our technical capabilities, our productivity and the quality of the services we deliver.

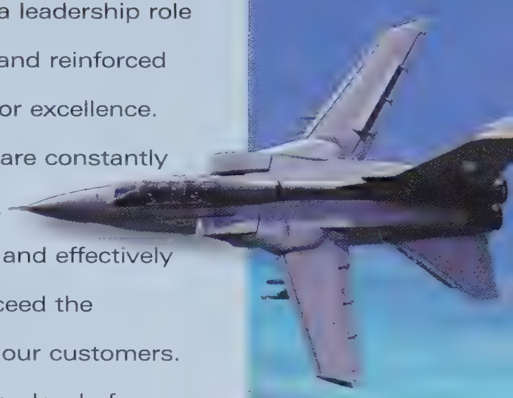
Revenue Distribution

By Product



By Application





We have taken a leadership role in our industry and reinforced our reputation for excellence. Our employees are constantly striving to work more efficiently and effectively to meet and exceed the expectations of our customers. Their outstanding level of commitment and expertise is at the core of Vector's success. It is this commitment that will help propel us to the forefront of our industry.

I am excited about our long-term opportunities for growth. We will focus on growing our existing business while seeking out and evaluating emerging opportunities that complement our portfolio. We accept this challenge with confidence knowing that we can depend on the commitment of our employees and board members, and the continued support of our shareholders. Our future rests on a solid foundation.

Mark Dobbin

President's Message

focus & direction

We had a number of significant achievements in 1999. We secured new multi-million dollar contracts, renewed others, were awarded new engine licences and successfully integrated two acquisitions. And we delivered a solid financial performance.

Paul Conway,
President and COO

In fiscal 1999, our first full year of operation as an independent public company, we generated net earnings of $20.3 million ($0.72 per share) on revenue of $268.1 million.

a strong performance

Earnings before interest, taxes, and amortization (EBITDA) was strong at $41.3 million. Our EBITDA margin of 15.4% is among the best in this business. Our return on capital employed of 15.3% and our return on equity of 19.5% are also among the best in the business.

This performance demonstrates Vector's ability to deliver strong financial results as we implement an aggressive plan for growth.

A Mandate for Growth

Vector's divisional managers have a firm mandate for growth: expand the customer base, achieve greater efficiencies and add to the portfolio of services and technologies. Our philosophy for growth within this environment is to focus on our core competencies while strategically expanding within the after-market repair and overhaul sector.

The business cell concept introduced in 1998 has streamlined processes, increased efficiencies and aided in internal growth. We have empowered our managers and provided them with the resources to grow their business. Accountability and acknowledgement of performance are the essence of the Vector management style.

We have committed significant capital for the expansion of facilities, licences, technology and workforce training. The securing of three licence agreements from Pratt & Whitney Canada in November of 1999 is evidence of that support. We are investing in new test cells at Atlantic Turbines and ACRO and we are relocating SIGMA's test cell facilities. We moved Alameda Aerospace to larger and better-equipped facilities in Alameda, California.

The cornerstone of the repair and overhaul (R&O) business is the requirement for operators to adhere to a strict schedule for the repair and overhaul of their aircraft. For the R&O providers in the aviation after-market, this regularly scheduled maintenance creates a recurring revenue stream.

The key to succeed in this market is a reputation for quality and reliability. Each of our divisions has earned that reputation and gained a broad customer base including commercial, commuter, cargo and military aircraft operators. And we will continue to expand our capabilities to meet the comprehensive needs of a growing list of operators.

The aviation industry's approach to R&O is changing. Outsourcing has become the order of the day. Fixed-wing aircraft and helicopter operators are recognizing that the road to profitability does not require the commitment to in-house repair and overhaul. Operators want to free up the capital and management time previously required to maintain in-house R&O to focus on their core competency - operating aircraft. We have, and continue to develop, the capabilities to be the independent supplier of choice for airline outsourcing.

> "Our philosophy for growth is to focus on core competencies while strategically expanding within the after-market R&O sector."

Information technology (IT) plays an increasingly important role in aviation repair and overhaul. Service levels and costs are being positively impacted by this rapidly developing technology. Vector is well positioned with R&O experienced IT staff and proven software. Our IT division currently provides online services to a number of third parties. The comprehensive services available include inventory control, work-order management, report writing and technical record keeping. In addition to satisfying Vector's internal requirements, our software package is currently used to monitor technical information on over 500 fixed-wing aircraft and helicopters around the world. Our IT capabilities enable us to add value and attract customers in this competitive environment.

Managing Acquisitions

Acquisitions also played a key role in our growth. We completed two acquisitions and integrated them during 1999. This expanded our capabilities in a number of important ways.

The acquisition and integration of Helipro provided us with the opportunity to greatly expand our level of expertise and our customer base in helicopter airframe repair. Helipro complemented our already considerable helicopter repair and overhaul capabilities and we have been able to exploit natural synergies. This seamless integration of Helipro is evidence of our strong management capabilities.

Today Vector, through the combined services of Helipro and ACRO, is the world leader in helicopter R&O services. And the market recognizes this.

The acquisition of Alameda Aerospace is also a very exciting opportunity. This purchase provided us with the expertise and assets to expand into the repair and maintenance of aircraft accessories and avionics and the overhaul of APUs. Alameda Aerospace's comprehensive list of capabilities gives us an opportunity with tremendous upside potential for growth in both commercial and military fixed-wing aircraft maintenance, repair and overhaul.

Through these acquisitions we have established solid R&O bases in the United States for both fixed-wing aircraft and helicopters.

Moving Forward

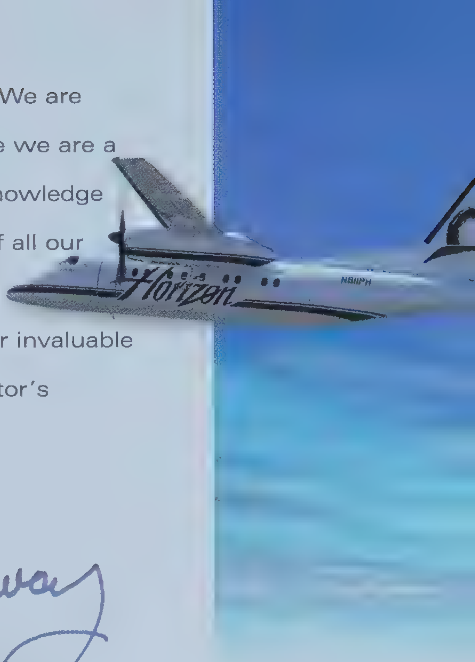
We achieved the goals we set for 1999. We delivered strong earnings. We made strategic acquisitions. We increased our portfolio of engine licences. As a result Vector is stronger and has achieved a significant profile in the global market.

But we do not intend to rest on past successes. In 2000 Vector will continue with its strategy for both internal and external growth. We will continue to introduce innovation to our services, broaden our customer base and strengthen long-term relationships with loyal customers and original equipment manufacturers.

We expect our earnings to continue on a steady and predictable upward trend as we seize the opportunities created by additional licence agreements, new and expanded contracts and other internal growth initiatives. As the business grows we will achieve economies of scale and further refine our cost structures to make Vector even more competitive. The financial performance of successful new acquisitions will further contribute to our earnings.

Vector has a proven and successful track record in after-market repair and overhaul. By building on our solid reputation, focusing on core skills and applying our disciplined approach to manage growth, we are rapidly moving towards our goal to become the R&O provider of choice in the global aviation industry.

We talk with pride of our accomplishments and with enthusiasm for the opportunities ahead, but it's only through the hard work and dedication of our loyal staff that we are able to achieve our goals. We are successful because we are a strong team. I acknowledge the contributions of all our employees and thank them for their invaluable contribution to Vector's success.



Paul Conway

Paul Conway

A Changing Industry

In the highly regulated aviation industry, all aircraft parts, components and structures require ongoing inspection and maintenance. Original equipment manufacturers (OEMs), government regulators and operators set the guidelines for use and maintenance of these parts.

Parts are removed and replaced according to their prescribed useful life or when they become unserviceable. Aircraft operators are required to carefully track the time used and the condition of parts installed on aircraft in their fleets. Aircraft maintenance is predictable in that operators can forecast "arisings" by factoring past usage and projected use. This predictability enables R&O providers to have the spare parts and resources on hand when the operators need them.

adapting to rapid change

Higher levels of R&O expertise and more advanced equipment are required to maintain today's modern fleets as the aircraft become more technologically sophisticated. Fleet operators are rapidly moving away from in-house maintenance to focus time and resources on their core competency - air transportation. R&O requirements in the military markets are also shifting dramatically. With ever-increasing demands on limited budgets, militaries around the world are reducing internal maintenance capabilities and outsourcing to the private sector.

The aviation R&O market is changing rapidly. The products we service are more sophisticated. Our customers expect higher levels of service at competitive pricing. Aircraft usage is increasing and outsourcing is the order of the day. Today's repair and overhaul market is maturing and rapidly becoming an environment that favours highly specialized well-funded service providers like Vector. We possess the expertise and licences to serve an ever-growing and demanding customer base.

SIGMA AEROSPACE

The Way Forward

The engine repair and overhaul market is currently in a period of intensive consolidation. Our goal within that environment is to make Vector the independent R&O provider of choice in the world. Our challenge to achieve that goal is to expand Vector's products and services and diversify its engine capabilities through internal growth and acquisition. Vector has risen to this challenge.

opportunities for growth

Our name is recognized and respected internationally by aircraft operators and original equipment manufacturers alike. The company was founded in 1998 but our facilities and our team - now 1,100 strong - have more than 60 years experience in repair and overhaul for the aviation industry. We profitably serve a world-wide customer base delivering quality service, improving turn times and raising customer satisfaction to new levels.

There are many opportunities for growth in the expanding aerospace industry. The worldwide population of aircraft engines is increasing. Industry forecasts call for a continued increase in flight hours. And there is a growing trend by airlines, government, and militaries to outsource aircraft repair and maintenance services.

The worldwide market for aerospace repair and overhaul is estimated at US $50 billion including commercial, government and military operators. Within the next four years the value of repair and overhaul for commercial operators alone will jump from US $29 billion to $34 billion.

As the aerospace industry continues to grow, competition increases the need for cost effectiveness. This is causing aircraft operators to search for the best way to reduce costs, streamline buying decisions and satisfy government regulations. As part of that trend they are increasing their demand for larger, better-capitalized R&O providers with a track record of success. This demand in large part has fuelled the continuing consolidation of independent R&O providers around the globe.

Based on these trends, growth opportunities are substantial for independent R&O providers with the right management skills and technical expertise. Vector has the focus, discipline and financial resources to capitalize on these opportunities.

"We profitably serve a world-wide customer base delivering quality service, improving turn times and raising customer satisfaction to new levels."

strength through internal growth

Each of our divisions has the capacity for internal growth. To maximize the benefits of internal growth we have introduced special production teams we call "business cells." Each cell is a mini business unit that is customer focused externally and product focused internally. Commercial, sales and production functions are integrated, creating total ownership and a continuity of service throughout the customers' order-processing cycle. And the strategy is working. These cells have improved communications and responsiveness across the board. This increased empowerment and accountability is improving margins.

At Vector we continue to benefit from our independence by winning new customers in both the fixed-wing aircraft and helicopter markets. In 1999 Atlantic Turbines continued to expand its customer base outside North America with the addition of customers in Europe, South America and Australia. SIGMA achieved significant growth by winning a three-year $40 million contract with the Royal Saudi Air Force. In helicopter R&O, Helipro and ACRO combined have created opportunities to bid on and win work that they could not bid on separately.

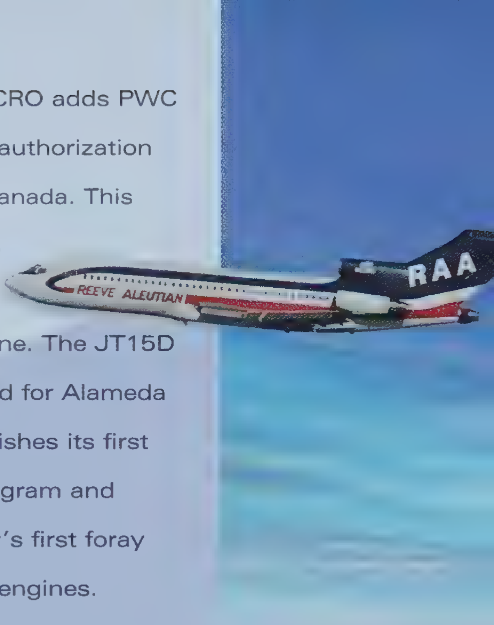
But the strength we derive from internal growth doesn't stop there. We are actively cross-selling our services. And we are implementing an initiative to increase high margin rework capabilities. ACRO and SIGMA have established their rework shops as separate business cells winning new third party business.

As our business expands and our international profile grows, opportunities in these areas will increase substantially.

When it comes to internal growth, the addition of a new engine line to an existing facility offers excellent returns on invested capital. We laid the groundwork during 1999 for significant growth in this regard by negotiating three new Distributor and Designated Overhaul Facility (DDOF) Agreements - with an initial term of ten years - for PWC's PT6A, PT6T and JT15D engine lines. We also negotiated a renewed and expanded PW100 engine series agreement for Atlantic Turbines.

expanding our portfolio of engine lines

Of the three new DDOF engine agreements, the PT6A is designated for Atlantic Turbines, significantly expanding their product offerings beyond the PW100 line. The PT6T licence designated for ACRO adds PWC approval to their authorization from Transport Canada. This increases ACRO's competitiveness on this existing line. The JT15D licence designated for Alameda Aerospace establishes its first thrust engine program and represents Vector's first foray into business jet engines.



We believe these designations reflect PWC's confidence in our ability to deliver top-notch maintenance, repair and overhaul services.

As we build our customer base, increase capabilities and strengthen relationships with the manufacturers of aircraft engines, we increase Vector's profile as the independent provider of choice for new OEM licence grants.

strength through acquisitions

We completed two strategic acquisitions in 1999, both of which enhance our ability to achieve our business plan of focused and disciplined growth around our core skills.

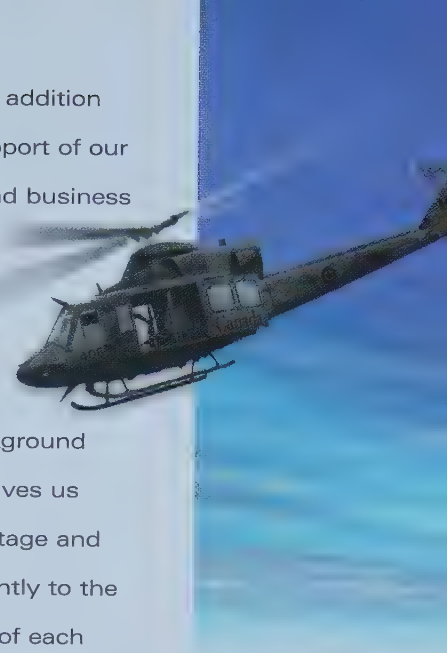
The Helipro Group was a strong competitor of our ACRO Aerospace division on some product lines. By acquiring this business we solidified Vector's position as the dominant helicopter R&O organization in the world. We saw the acquisition as a market consolidation related to engines and components and an expansion of our existing airframe capabilities. It gives us an established base for helicopter repair and overhaul in the United States. And we are extremely pleased that the former owners and management of the company chose to stay on as part of the Vector team.

In 1999 we also expanded our capabilities to include auxiliary power units and accessories for large aircraft with the purchase of the business and assets of Tower Aviation and Advanced Turbine Technology of Oakland, California.

We acquired the assets of these companies under U.S. Chapter 11 bankruptcy proceedings at a significant discount to appraised value. Subsequent to the purchase we moved the business to new facilities in Alameda, California and renamed the consolidated entity Alameda Aerospace. This new division establishes a base of operations in the United States for our fixed-wing business.

Alameda Aerospace's major customers are larger airlines and cargo carriers. This creates significant cross-selling opportunities, particularly with Atlantic Turbines whose customers are primarily regional carriers. Many of these operators are owned by the larger airlines.

Part of our strength in implementing successful acquisitions and advancing our business plan is a robust IT systems team. In addition to the IT team's support of our existing divisions and business processes, key members of the team support our acquisition process. Their extensive background in aerospace R&O gives us a competitive advantage and contributes significantly to the effective integration of each acquisition.



people - our greatest asset

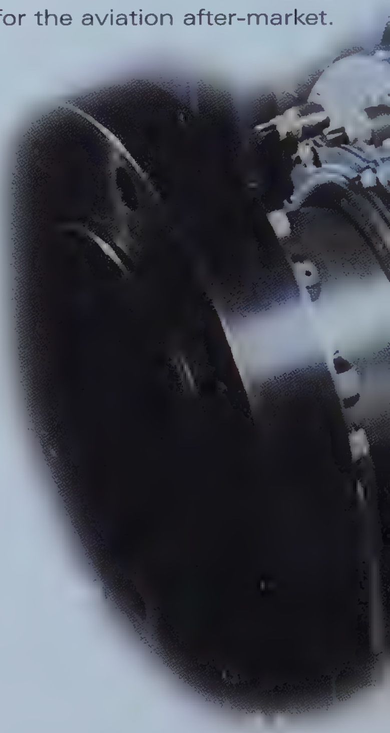
The skills and experience of our people are world class. Whether they work in aircraft engine and component technology, business management or information technology, these individuals are this company's greatest asset. That is why we invest in professional development at all levels of the organization.

For example at SIGMA we are seeking accreditation under the UK government recognized "Investor in People" program which focuses on continuous improvement of personnel. Through Atlantic Turbines we have a long-term relationship with a local college and have hired many graduates from the accredited gas turbine technician course that we helped to establish. And ACRO has launched an innovative in-house technical training program that is providing top quality technicians as demand for our services continues to grow.

We respect all our people and their initiative to actively engage in upgrading their skills. Furthermore we will continue to invest in their advancement as they create value for our customers and for our shareholders. We recognize and appreciate that the successful achievements of Vector are a direct result of the skill and dedication of our 1,100 strong team of employees.

Strong Bottom Line

As we focus on expansion, we are determined to meet our financial commitments. This year we demonstrated our ability to perform as an integrated, large and continually successful company. We increased our revenues by $41.8 million in 1999 to $268.1 million and the bottom line was strong at $20.3 million. We have solid cash flow, predictable revenues and potential for continued strong growth. We are moving forward aggressively as a strong corporation capable of creating our own opportunities for growth in providing repair and overhaul support services for the aviation after-market.



"We recognize and appreciate that the successful achievements of Vector are a direct result of the skill and dedication of our 1,100 strong team of employees."

Vector's Capabilities

gas turbine engines

Atlantic Turbines

OEM	Engine Model	Installed on Aircraft Type
Pratt & Whitney Canada	PW100 Series	deHavilland - Dash 8 Series 100, 200, 300
		ATR (Regional) - Series 42, 72
		Embraer 120; Dornier 328
	PT6A Series	Raytheon - King Air, Beech 99, Beech 1900
		deHavilland - DH6 Twin Otter

ACRO Aerospace

OEM	Engine Model	Installed on Aircraft Type
Pratt & Whitney Canada	PT6T Series	Bell - 212, 412EP; Sikorsky - S76B
Turbomeca	Arriel 1	Sikorsky - S76A, S76C
		Eurocopter - AS 365N2, BK 117C1, AS350 Series
		Agusta - A109K2
General Electric	T58 (military)	Boeing - Labrador SAR; Sikorsky - Sea King
	CT58 (civil)	Sikorsky - S61
	T64	deHavilland - Buffalo
	T700	Westland/Agusta - Cormorant
Rolls-Royce	Allison 250	McDonnell Douglas - 500E, 520N, 600N, 500C, 500D; Bell - 206, 407; Eurocopter - AS355, BO105; Sikorsky - S76A

SIGMA Aerospace

OEM	Engine Model	Installed on Aircraft Type
Rolls-Royce	Dart Series	Friendship FH227; Hawker Siddley - HS748
		Gulfstream - G1; Fokker - F27
	Conway	BAe - VC10
	Allison T56 (military)	Lockheed - C130 Hercules, P3 Orion
	Allison 501D (civil)	Lockheed L188 Electra, L100; Convair 580
	Allison 501K	Industrial Turbine

Alameda Aerospace

OEM	Engine Model	Installed on Aircraft Type
Pratt & Whitney Canada	JT15D Series	Cessna Citation; Raytheon Beechcraft
Allied Signal	GTCP 36,85, and 331 Series APUs	Boeing 737,757,767 MD80 Airbus A320 & most wide body

dynamic components

ACRO Aerospace

OEM	Component Type	Installed on Aircraft Type
Sikorsky	All drive train dynamic components	Sikorsky - S76, S61 & military derivatives
Bell		Bell - 204,205,206,206L,212,214,407,412
Eurocopter		Eurocopter - AS350 (Astar/Ecuriel), AS355 (TwinStar/Twin Ecuriel)

airframe & other maintenance

Helipro Airframe Group

OEM	Component	Installed on Aircraft Type
Sikorsky	Structures, avionics, wiring & rotor blades	Sikorsky - S76, S61 & military derivatives
Bell		Bell - 204,205,206,206L,212,214,407,412
Eurocopter		Eurocopter - AS350 (Astar/Ecuriel), AS355 (TwinStar/Twin Ecuriel)

SIGMA Aerospace

OEM	Component	Installed on Aircraft Type
Hamilton Standard	54H60 propeller	Lockheed - C130 Hercules, L100, P3 Orion
Dowty Rotol	Various propellers including R193, R212, R184 & R257	Fokker F27 Hawker Siddley HS748 Gulfstream G1 Friendship FH227

Alameda Aerospace

OEM	Component	Installed on Aircraft Type
Various	Avionics, instruments & accessories	Boeing; Airbus; Lockheed & others

Corporate Information

focus & direction

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